DEPARTMENT OF CONSUMER & BUSINESS SERVICES

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Final 2016 Rate Decisions for Small Group Health Benefit Plans

Background

Insurance companies offering small group health benefit plans in 2016 are required to file proposed rates with the Department of Consumer and Business Services' Insurance Division for review and approval before plans can be sold to small businesses and their employees. Rates reflect estimates of future costs, including medical and prescription drug claims costs and administrative expenses, and these estimates are based on historical data and forecasts of future trends.

Rates must be "actuarially sound" – essentially, they need to adequately cover costs without being too high, too low, or unfairly discriminatory. Insurance companies have a responsibility to develop rates that meet these requirements, but the Insurance Division also has a responsibility to protect the public by ensuring that rates are actuarially sound. It is easy to understand why the division would be concerned about rates being too high, as businesses and their employees should not be overcharged for their insurance coverage. But it is just as critical for the division to ensure rates are not too low so policyholders can count on the coverage they purchase.

2014: First Year of Data under the Affordable Care Act

When the division approved rates for 2014 and 2015 small group health benefit plans, actual data reflecting the cost to provide coverage in the small group market was not yet available. However, changes to the small group market as a result of the Affordable Care Act (ACA) were much smaller than those in the individual market. This is true because the small group market already reflected some of the ACA's requirements. For example, prior to 2014, insurance companies could not deny small groups coverage based on the health of the group, Oregon law placed restrictions on factors that could be used to set rates, and a typical small group plan covered more benefits than a typical individual plan. The relative consistency in the small group market dynamics made it easier to rely on historical data to estimate future costs.

Earlier this year, insurance companies filed their 2014 financial statements, and out of 12 insurance companies that sold small group coverage in Oregon, six made a profit and six sustained losses. Looking across the entire small group market, the total cost to provide coverage was $854 million, while premiums were $875 million. This means that rates covered costs and the market as a whole made $21.6 million in profit or margin, or about 2.5% of premium in 2014. These types of financial results, where some companies profit and others sustain losses and rates cover costs, are generally indicative of a competitive market with actuarially sound rates.

Rates for 2015 did not change much relative to 2014 – some increased, and some decreased. While little information is available about 2015 costs, the division is not concerned that 2015 rates will be excessive or inadequate at this time.

Market Overview

Oregon's small group health insurance market has been quite competitive for many years, and while price has driven competition to a degree, other factors come into play, as well. Many small businesses work with an agent to select health benefit plan options for their employees, and this usually means that small groups consider more than rates in their decision. They're less likely to change from one insurance company to another each year just to get a lower rate to maintain continuity and predictability for employees and their families.

As a result of competition and a relatively predictable pool of covered employees and families, the small group market has stabilized in recent years, resulting in smaller year-to-year fluctuations in rates and a mix of financial results for insurance companies. This stability is good for small businesses, their employees, and their families.

2016 Filing Review, Public Comment, and Final Decisions

On June 18, the division released its preliminary rate decisions, which were based on the division's analysis of information and public comment received to date. Preliminary decisions reflected findings that a few projections

were too low due to aggressive assumptions, technical errors, or plans to sustain significant losses that may trigger payments from a federal program designed to help companies with larger than expected losses. One projection was found to be too high. If the total impact of the division's adjustments for a particular filing was less than +/-2%, we determined that the filed rates were within a reasonable range and did not propose to adjust the filing.

The division held public hearings June 23 to 25 and continued to receive public comment through June 25. This was the first time the division released preliminary decisions prior to holding public hearings in an effort to provide the public and insurance companies a better opportunity to discuss elements of the filings and the factors affecting the division's decisions. Most public comments related to individual plans, but the few comments received related to small group plans focused on affordability.

After considering both public comment and points made during the hearings, the division found that most project an average claims cost within a reasonable range. Final decisions are unchanged from the division's preliminary decisions for all but one insurance company, and that decision was adjusted to reflect information discussed in the public hearing.

The division's final decisions focus on protecting Oregon's insurance consumers against the risk of large future rate increases and the risk of companies not being able to pay claims, while also protecting consumers from being charged more than the cost of coverage.